



DEPARTMENT OF STATE

Washington, D.C. 20520

April 5, 1982

MEMORANDUM FOR MR. WILLIAM P. CLARK
THE WHITE HOUSE

Subject: NSSD-1

Attached for your review is Section f (Security Assistance) of NSSD-1. It was produced by an interagency group under State chairmanship, and has been cleared at the working level.

L. Paul Bremer, III
Executive Secretary

Attachment:
As stated.

Drafted: PM:LBrown
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~~TOP SECRET~~

SECURITY ASSISTANCE

This paper discusses the role of security assistance* in US foreign and defense policy and identifies issues for further consideration.

Security assistance is a critical element in supporting this Administration's national security and foreign policy objectives. It is designed to extend US influence abroad, to help deter conflict, and if deterrence fails, to enable friends and allies to defend themselves. Security assistance provides US forces with access to bases, overflight and other rights enabling coordinated operations of US and friendly forces. Security assistance also strengthens the US economy and the defense production base.

The current security assistance program, however, is not, either in terms of size, composition, or execution, able to meet satisfactorily this ambitious set of objectives. There are several reasons:

- resources are inadequate and often of the wrong kind;
- the annual budget cycle constrains both long range defense planning with aid recipients and coherent FMS procurement planning by the Defense Department;
- procurement lead times, high cost and potential technology compromise have seriously reduced the responsiveness of the security assistance program; and
- legislative restrictions in the various acts covering security assistance reduce Executive Branch ability to react appropriately to emergencies or unforeseen events. Congressional earmarking, advance notification, and other oversight and control provisions make it very difficult to get the best possible return out of the security assistance resources Congress makes available.

Fulfillment of the global and regional objectives set forth in earlier sections of this study--including support of the Middle East peace process, access to and support of key Southwest Asian states, maintenance of existing alliance relationships, strengthening our friends in the Caribbean and Southeast Asia--depend in part on the availability of security assistance resources. Security assistance is as essential to meeting our security objectives abroad as is our own force structure.

* Security assistance consists of Foreign Military Sales credits and cash sales (FMS), grant military assistance (MAP), International Military Education and Training (IMET), and Economic Support Funds (ESF).

TOP SECRET

-2-

Resources

Security assistance is and will remain a critical element of our foreign and defense policy and, as such, will have a claim to significant budget resources for the indefinite future. While eight countries account for over 85% of the current Foreign Military Sales (FMS) credit program, new and important claimants continue to appear--the states of Central America and the Caribbean being a recent case in point. The marginal return for the dollars spent on small programs can be extremely high. This is particularly true of the International Military and Educational Training (IMET) program, but applies equally to the modest FMS programs that now exist in Latin American and Africa. In the large programs such as Korea and Turkey, security assistance becomes a potent force multiplier--an important characteristic where the US has explicit security commitments. In the small programs, the resources usually buy basic transportation, communications, and other military capabilities for dealing with low-level external threats and internal security problems.

Our assistance has increased from \$4.3 billion in FY 1980, when it equalled 1% of the US defense budget (an all-time low) to \$7.5 billion in FY 1982, but it is still only about 1.5% the size the defense budget. Put another way, security assistance represented .39% of our 1972 GNP, while it is only .22% today. One direct effect of this decline in purchasing power is that, except for Egypt and Israel, no country program is large enough to cover the purchase of modern fighter aircraft, something that a number of countries, like Turkey, desperately need.

This Administration has begun to turn the situation around by raising resource levels to meet urgent requirements. The FY 83 Reagan budget calls for an increase of \$1.2 billion or 34% over FY 82 appropriations, which itself represents a significant increase over its predecessor. However, the political climate for sustaining needed increases this year and in the future is uncertain.

Beyond the issue of levels, there is a need for a better mix of assistance:

- a higher proportion of grant aid to FMS credits;
- of the FMS credits, authorization for a certain portion at 3% interest instead of market interest rates now running about 14% (currently we have no authority to offer concessional interest);
- revised costing rules for FMS-financed training and increased use of International Military and Educational Training (IMET) programs because of their high marginal returns for each dollar spent.

TOP SECRET

-- maintenance at significant levels of Economic Support Funds (ESF) which provide balance of payments support for countries devoting significant resources to defense. (Seventy percent of the current funds are absorbed by Egypt, Israel and Turkey, leaving very little for other worthy claimants.)

Our assistance programs are not meeting the needs of the 1980s. The trend has been in the opposite direction of requirements for more grant aid. In FY 1982 grants fell to 25% of the total program, and more than half of those grants went to Egypt and Israel. Needs for increased security assistance rarely arise in prosperous countries; however, the requirement for increased concessionality, grant aid, economic assistance, and IMET grows as our support is required in a large number of economically weak countries.

Multi-year Commitments

We also need the ability to make more extensive use of multi-year commitments to permit longer range planning and predictability in our programs for the benefit both of the US and recipient countries. Multi-year commitments assist the US in planning procurement, thus helping to keep production lines going and unit costs down. Foreign security assistance recipients are also better able to manage the acquisition of expensive and complex weapons systems, rationalize force planning, and develop a sense of confidence in US support.

Currently we have three types of multi-year commitments in security assistance programs:

-- formal Executive Branch commitments over a specified period as part of formal base agreements (e.g. Spain, Philippines, Portugal);

-- an Executive Branch "best effort" commitment (e.g. Zimbabwe and Pakistan); and

-- "cash flow" arrangements with Israel and Egypt which presume outyear funding at levels no less than those of the current year.

-- All of these multi-year commitments nonetheless depend on annual appropriations by Congress. It is unlikely in the future any more than in the past that Congress will compromise its constitutional budgetary authority by guaranteeing funding levels in out-years. Thus, we do not see multi-year commitments as a legislative issue but rather a determination by the Administration to exercise its right to make such "commitments" in the interest of conducting a more rational foreign policy and to defend that right vigorously on the Hill.

TOP SECRET

TOP SECRET

-4-

Procurement and Security Assistance

Because of budgetary uncertainties and legal restrictions, neither the military services nor the Defense Department systematically take foreign requirements into account in terms of sizing the production base or planning production runs. Thus, to meet urgent security assistance commitments, our own forces must often absorb unplanned diversions. We do not take advantage of the fact that security assistance procurement could provide smoother production runs, an expanded industrial base, shorter leadtimes and reduced costs for us. Security assistance procurement also enables us to maintain a production base for current systems that are being replaced, while the new production capability is coming on line. We must develop an approach to US defense procurement and production planning that prudently takes into account likely requests by foreign governments. For example:

-- we can demonstrate that a certain percentage of our production capacity for specific systems historically serves security assistance requirements; thus we should plan on it from the beginning.

-- where sensitive technologies are involved that we do not want to release worldwide, we should plan from the outset to provide export versions of new equipment.

-- where a current "model" is being replaced we should examine the opportunities offered by "co-production/co-assembly" arrangements abroad. This would then offer an alternative to selling front-line equipment and provide a fall back for ourselves. To make this work, we would have to be willing to permit the use of FMS credits to buy equipment produced abroad and be prepared to defend this to Congress.

The Special Defense Acquisition Fund

The purpose of the newly created Special Defense Acquisition Fund (SDAF) is to allow the Defense Department to buy defense articles in anticipation of eventual foreign sales. The SDAF, operating as a revolving fund, will enhance the President's ability to fulfill urgent requirements quickly. It will reduce procurement leadtimes both for delivery of equipment to foreign customers and pay-backs to US forces when equipment is diverted from production or withdrawn from stocks. The SDAF can be used to smooth production rates or extend the production line of older equipment still in demand (e.g. the M-60 tank).

The SDAF account has been established, but we are limited to a capitalization level of \$600 million by the end of FY 1983. Moreover, we do not yet have authority to spend. We are seeking such authority

TOP SECRET

~~TOP SECRET~~

- 5 -

and an increase in the size of the fund to \$900 million. Both deserve and will need strong support from the highest levels of government.

Although our original capitalization target was \$2.1 billion, a \$900 million level gained through three consecutive years would allow a test of SDAF effectiveness. Since most production cycles run in the two to three-year time frame, money from the sale of SDAF procured items would begin returning to the fund in the third year of operation. This could permit planning for procurement in the fourth year without new capitalization. However, the potential need to procure an intermediate export fighter aircraft in addition to high cost air munitions and Army equipment demand a minimum capitalization level of \$900 million if we are not to continue the pattern of diverting equipment intended for our own forces. Since 1978, almost seven battalions of tanks have been diverted or withdrawn from the Army. Similarly, the tactical aircraft equivalent of 1.5 fighter wings have been diverted or withdrawn from the Air Force. Diverted equipment is, of course, paid back, although this may take as long as three years.

Combined Planning

Our ability to improve production planning and to use the SDAF efficiently will depend heavily on our ability to forecast both demand and resources over a three to five year period. This in turn suggests a requirement for far more extensive combined planning with major recipients not only of security assistance but also those countries rich enough to finance purchases by themselves.

We have successfully conducted such combined planning for several years with Korea and Jordan and we are beginning it with Saudi Arabia, Tunisia and Morocco. There are others we will need to engage in this effort. Such planning may require expansion of security assistance organizations overseas and broader authorities for them.

Success will be gradual, since few third world countries have strong planning capabilities, and estimating future resource availabilities will be difficult. Moreover, there are certain liabilities involved. Combined planning carries with it implications of commitments that may be impossible to fulfill. In addition, such planning must invariably touch on sensitive systems and technologies (e.g. advanced aircraft, precision guided munitions) that could raise serious Congressional reactions, whether or not the systems were ever sold. The US will have to accept security risks in providing available threat analyses to foreign countries. In addition, we will have to make available comparative performance, cost and other data on specific systems, even though we might not ultimately be willing to sell all such systems to the country in question. In the past we have not, as a matter of policy, released such data unless there was a strong presumption of willingness to sell, in

~~TOP SECRET~~

-6-

order to avoid the political embarrassment of unfulfilled expectations. This policy is not compatible with a genuine joint planning activity where comparative data will be important to the countries involved in making rational decisions.

Finally, it should be noted that countries may for political or other reasons be reluctant to engage in combined planning. In any event, combined planning will serve little purpose if we cannot respond decisively when country decisions are made and formal requests put forward. This brings us back to the weaknesses of the current production base, delivery lead times and resource limitations. All of these must be improved in tandem, if we are to fulfill the ultimate goal of putting needed equipment in the hands of friends and allies in a timely way.

Legislation

There are a number of flaws in the legislation governing security assistance. For example, by its nature, a portion of security assistance should be available to respond to military emergencies. Heretofore, Congress has balked at appropriating any significant sum of unallocated money for this purpose, although it has provided limited emergency drawdown authority under strict Congressional control. We should be prepared to make an energetic effort to persuade Congress to provide such contingency funds.

Aside from emergencies, the budgetary process has proven to be a slow and inflexible instrument to support our security interests. The analysis and input that goes into the formulation of the budget is well over two years old before any money is actually disbursed and at least twice that before materiel is actually delivered. Moreover, the budget is formulated and presented to Congress on a country basis, that is, each country is allocated a certain level of assistance and that level is defended in the hearing process. Once that budget is passed, it is extremely cumbersome to reprogram resources from one country to another as priorities change. And it is virtually impossible when Congress earmarks funds, as it does in the case of Israel and Egypt.

While Congress is unlikely to give up earmarking, we should try to get relief from rigid reprogramming procedures, easing of conditions for emergency drawdowns, and a reduction of Congressional micromanagement of the arms transfer process and overseas personnel levels. We should also try to get rid of burdensome and largely meaningless reporting requirements, country specific conditions (e.g. Turkey, Angola), restrictions on police training, differing methods of computing costs for cash and grant training, and similar outdated or inappropriate sections of the law. It should be noted that the Congressional veto authority over arms sales,

TOP SECRET

TOP SECRET

-7-

which is one of the most intrusive aspects of Congressional oversight, may be settled by the Supreme Court later this year. It is not something, however, that we are likely to be able on our own to negotiate out of legislation.

Very few of these changes are attainable this year because of the 1982 election. However, late this fall, prior to the reconvening of Congress in January, 1983, it should be feasible to begin to explore with the appropriate Congressional staffs a proposal to revise extensively, rationalize, or conceivably even rewrite both the Arms Export Control Act and the Foreign Assistance Act of 1961.

TOP SECRET

TOP SECRET

- 8 -

ISSUES

1. Resources -- Should we plan for steady real growth in the security assistance program over the next five years? The importance of security assistance to our foreign and defense policies suggests not only that real growth will be essential if we are to meet our national security objectives, but that the rate of growth perhaps should be indexed to that of the defense budget.
2. Multi-year Commitments -- Should we make more extensive use of various forms of multi-year commitments (formal Executive Branch commitment, best-effort, cash flow)? Even with the vulnerabilities associated with commitments that depend on annual Congressional appropriations, such commitments do have the virtue of establishing the reliability of the US and of allowing more rational force planning, procurement, and program management for both the US and the aid recipient.
3. Procurement -- Should we improve our security assistance planning activities and extend combined planning activities to more countries? Such planning could improve estimates of future resources and equipment demands, and consequently our own procurement planning, including the integration of foreign military sales into US service procurements. Such planning would also serve to nudge countries toward greater compatibility and cooperation with US forces.
4. Legislation -- Should we undertake a major effort to rewrite and rationalize the Arms Export Control Act and the Foreign Assistance Act? The present legislation is technically complex and confusing and contains restrictions, prohibitions, and procedures that work not only against the objectives of security assistance but also seriously complicate the management of the program. Early 1983 would be an appropriate time to submit any major revisions or rewrite to the Congress.

TOP SECRET

TOP SECRET

TOP SECRET

ISSUE FOR DISCUSSION

1. Resources - Should we plan for steady real growth in the security assistance program over the next five years?

Key Considerations

-- Security assistance will continue to play a crucial role in support of US foreign policy and defense interests in new as well as existing regions. Adequate resources substantially above those presently available will be necessary over the next five years.

-- Since security assistance is becoming increasingly important in poorer countries, budget levels must not only be adequate but must include significant proportions of grant aid and concessional credits. There are a number of recipients now receiving FMS guaranteed loans at 14% interest (e.g. Sudan, Zaire, Somalia) whose economies are nearly bankrupt. To continue such loans only worsens an already bad situation, but we currently have no real alternative unless we can increase our grant appropriation.

-- Obtaining resources that are adequate and the right mix will require a determined effort by the Administration to convince Congress and the public that security assistance directly supports US national interests, including foreign policy and defense objectives, and that these programs also benefit the domestic economy.

Tentative Recommendations - To meet increasing, world-wide needs for security assistance, there should be sustained real growth in the program over the next five years. To provide a better mix of assistance, realistic proportions of grant aid (including IMET) and FMS credits at 3% interest should be sought, rules for pricing FMS-financed training revised, and significant levels of ESF maintained.

TOP SECRET
RDS 4/8/02

TOP SECRET

ISSUE FOR DISCUSSION

2. Multi-year Commitments - Should we make more extensive use of various forms of multi-year commitments (formal Executive Branch commitment, best-effort, cash flow)?

Key Considerations

-- We have made multi-year commitments for several years as part of formal base agreements (e.g., the Philippines, Spain and Portugal), as "best effort" pledges to seek appropriations from Congress (e.g., Pakistan and Zimbabwe) and through the use of "cash flow" arrangements (e.g., Israel and Egypt) that presume outyear levels will be no less than current levels.

-- Multi-year commitments assist both the US and recipient countries to engage in longer-range procurement and force planning, and reduce costs.

-- They also make US security commitments more predictable and reliable to foreign countries.

-- Congress will probably continue to oppose multi-year Executive Branch commitments, and we run the risk that it may fail to appropriate the necessary annual funds to cover them.

-- Thus, multi-year commitments are not a legislative issue but rather a determination by the Administration to continue exercising its right to make such commitments and defend that right vigorously on the Hill.

Tentative Recommendation - Multi-year commitments should be more widely used to permit longer-range planning and predictability in security assistance programs for the benefit both of the US and recipient countries.

TOP SECRET
RDS 4/8/02

ISSUE FOR DISCUSSION

3. Procurement - Can we extend our anticipation of, and planning for, Foreign Military Sales, through more combined planning with countries, more market surveys, selected sales promotions (e.g., FX) and heavy dependence on the Special Defense Acquisition Fund.

Key Considerations

-- We are not now able to project FMS requirements adequately into procurement planning for military equipment because of budgetary uncertainties and legal restrictions.

-- We can nonetheless predict foreign requests to purchase many of our systems.

-- As soon as SDAF is funded and authorized for use, it will permit advance ordering of equipment (on long lead time items) for eventual purchase by FMS customers. SDAF capitalization above the current legal limit of \$600 million will almost certainly be necessary if it is to be of maximum utility.

-- We also need to develop export versions of high technology weapons that will meet foreign defense needs while maintaining technological security.

-- The US procurement process and foreign government planning can be improved by greater use of combined planning.

Tentative Recommendation - On the US side, we should a) take foreign sales more explicitly into account in planning procurement of equipment, b) develop export versions of weapons incorporating technologies we may not wish to release, and c) develop alternative sources for weapons going out of production in the US which may still be in demand abroad. Foreign buyers should assist through increased use of combined planning.

TOP SECRET
RDS 4/8/02

TOP SECRET

ISSUE FOR DISCUSSION

4. Legislation - Should we undertake an effort to rewrite or substantially revise the Arms Export Control Act (AECA) and the Foreign Assistance Act (FAA)?

Key Considerations

-- If resources were always adequate, we could live reasonably well with the existing legislation. Since resources are not ever likely to be adequate, we must have more flexibility for reprogramming, emergency drawdown, and other authorities related to managing the program and reacting to unforeseen events.

-- Rewriting the entire AECA and FAA could be dangerous to the extent that we risk losing some of the flexibility we now have, e.g., Section 506 and 614 waiver and emergency drawdown authority.

-- Major revisions, however, of the more restrictive sections of the Act (e.g., country specific restrictions, mandatory sanctions) would be worth the effort.

-- Such an effort would also give us an opportunity to demonstrate to the Congress the importance of security assistance to our foreign and defense policy.

-- Removing the legislative veto provision of Section 36 of the AECA would be a high priority objective--something which may be settled in the near future by the Supreme Court. However, realistically the Congress is unlikely to give up this veto prerogative, short of court order, and thus, we should not expect to be able to get rid of the veto provisions of Section 36.

Tentative Recommendation - Applicable security assistance legislation should be revised or rewritten to remove outdated and irrelevant provisions and to provide more flexibility in the management of the program. Such an effort cannot be undertaken on the Hill before the November election, but immediately thereafter we could begin an interagency review of whether we should seek new legislation in FY 84.

TOP SECRET
RDS 4/8/02